



Investment Office

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AGENDA ITEM 4a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Asset Allocation Update

II. PROGRAM: Total Fund

III. RECOMMENDATION: Information only

IV. ANALYSIS:

The purpose of this item is to update the Committee about the actual asset allocation relative to policy targets following the steep declines in equity valuations.

The table below reflects actual and policy weights and ranges for each asset class as of October 31, 2008 (unaudited).

2008 (billions)		GE	AIM*	GE/AIM combined	GFI*	RE	ILAC*	Cash
Oct. 31	Policy	56.0%	9.5%	65.5%	22.5%	10.0%	2.0%	0%
Total Fund	Actual	43.7%	13.7%	57.4%	21.5%	11.8%	2.3%	7.0%
	Difference	(12.3%)	4.2%	(8.1%)	(1.0%)	1.8%	0.3%	7.0%
\$191.20	\$ (billions)	\$83.6	\$26.2	\$109.8	\$41.0	\$22.5	\$4.6	\$13.3
	Range	+/- 5%	+/- 3%	+/- 5%	+/- 5%	+/- 3%	0% - 5%	-

*Targets for AIM, GFI, and ILAC are interim Q3 targets.

As of October 31, 2008, the total fund value was \$191.2 billion, down from \$213.5 as of September 30, 2008. This decline in fund value is attributable to negative returns in domestic and international equities.

The Global Equity (GE) allocation was 12.3% under the 56% target and 7.3% below the lower range limit. Alternative Investments (AIM) was 4.2% above target (interim 9.5%) and 1.2% above the upper range limit. Global Fixed Income (GFI) was 1.0% below target but within range. Real Estate (RE) was 1.8% above target but within range and Inflation-Linked Assets (ILAC) was within range as well. Cash amounted to 7.0% (\$13.3 billion) compared to a 0% policy target.

As of October 31, both GE and AIM are outside of their respective ranges. The Statement of Investment Policy for Asset Allocation Strategy (Policy) (Attachment 1) also stipulates a range of +/- 5% for GE and AIM combined. The combined actual allocation of GE and AIM is 57.4% and is 8.1% below the target and 3.1% below the lower end of 60.5%.

Using the 10% strategic policy target for AIM the underweight is 3.7% and for GE and AIM combined the underweight is 8.6% relative to the 66% combined target. The policy target for AIM will be 10% from Q1 2009 onward.

Staff estimates that the underweight in GE during Q3 2008 when equity returns were negative has added around 60 basis points of incremental return to the PERF from the asset allocation effect.

Section VI B of the Policy provides that

Asset class allocations shall be managed to be within policy ranges, recognizing that extreme market volatility could cause asset class allocations to temporarily exceed the range. If an asset class allocation exceeds the policy range, Staff shall return the asset allocation to within its policy range in a timely manner, with the exact time period primarily dependent on transaction costs and liquidity.

Staff decisions concerning asset class active weights shall be determined in consideration of capital market views, relevant asset class characteristics, transaction costs, liquidity, and risks subject to this Policy and all other applicable policies.

Section VI F (Tracking Error) of the Policy requires that

The program will be managed within a target forecast annual tracking error of 0.75% using the CalPERS Risk Management System.

Staff will present an Asset Allocation review item in December 2008 in collaboration with Wilshire and PCA, to include proposals for addressing Asset Allocation issues.

V. STRATEGIC PLAN:

This item addresses Strategic Plan Goals VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions; and IX, achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

This item is for information only.

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